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Graduating with both the degree and the debt

Douglas Himes

Much in the news over the past decade has been the growth of student debt to pay for college expenses. Many college students find themselves after graduation with both the degree and the debt that paid for their education. Others who did not finish college have only the debt. Educational attainment is not the only thing affected by student loans. What effect do student loans have on the financial health of the borrowers after they leave college and set up their own housekeeping?

In "The effects of student loans on long-term household financial stability" (*Student loans and the dynamics of debt*, Brad Hershbein and Kevin M. Hollenbeck, eds., W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan, 2015), authors Dora Gicheva and Jeffrey Thompson compare the financial stability of former college students (some graduates, some not) who borrowed for their education with the financial stability of former students who did not take out student loans. They find that more student debt is associated with a higher likelihood of being "credit constrained"—that is, being unable to borrow money because of low credit scores or other factors. High levels of student debt are also associated with a greater likelihood of bankruptcy. Homeownership rates among young people may be negatively affected by education loans. Excessive student debt might even have an effect on the probability of marriage. These "side effects" of student loans are especially serious for those who took out student loans but did not complete their degrees—they are left paying for an education but are probably not receiving much, if any, of the return on investment that usually comes from a degree.

However, even with their downside, student loans are still a good thing for a large portion of students. Many would not be able to attend or complete college without borrowing. While both the cost of college and the amounts borrowed to pay the cost have increased, the benefits of a college education, in terms of better jobs, less unemployment, and a lifetime of higher earnings, have also increased. Some students "overborrow," taking out student loans that are beyond the manageable level of their eventual post-college job prospects and income. Almost by definition, student borrowers who did not complete their degree are in the overborrowing category. Other students' loans are described as "efficient," or at the "optimal" level, which is to say the benefits of the education for which the loan was used are worth the cost of borrowing. There are also students who "underborrow" and would actually be better off if they borrowed more money for their education. These students may attempt to work (instead of borrow) while in college, but their academic performance may suffer as they go through college distracted and tired.

Difficulties that arise in a study of student debt and financial stability include not having all the variables; for instance, student grades and choice of college major are important factors, but were excluded from the study. External influences on household finances, such as the recent recession, are hard to disentangle. More study of student debt and its effects is needed to better determine what portion of today's student debt is unmanageable.

In addition to the article by Gicheva and Thompson, *Student loans and the dynamics of debt* contains a dozen other articles that explore various aspects of student loans and related topics.